
OPERATING COST MANUAL

for
Homeowner Associations

California
Department of Real Estate

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Foreword

This is the twelfth revision of this manual which was first published in 1975.

The manual is designed as a guideline to assist homeowner associations, developers and management firms of common-interest subdivisions in budget preparation. The materials are applicable, at least in part, to the following common-interest subdivisions:

- Planned Developments (P.D.'s)
- Condominiums (Condos)
- Community Apartments (Com. Apts.)
- Stock Cooperatives (Stock Co-ops)
- Undivided Interest Subdivisions

The cost data are considered to be reliable as of fall 1999. Costs incurred in maintaining and operating the common facilities in common-interest subdivisions are likely to be affected by inflation. Inflationary influences should therefore be considered in budget preparation for those budgets which are prepared far in advance of the operating period covered by the budget.

The data in this handbook has been collected by the Budget Review Unit staff of the California Department of Real Estate from a variety of sources including homeowner associations, professional management firms, service organizations, public utilities and manufacturers.

It has been assembled in a form to facilitate multi-purpose use by lay governing bodies of homeowners associations, developers and professional management firms alike. As such, some parts of this manual may not apply to your situation and other resources should be solicited. THIS MANUAL IS NOT INTENDED TO INSTRUCT HOMEOWNER ASSOCIATIONS IN ACCOUNTING PROCEDURES OR FORMAT.

The Department will appreciate receiving suggestions for improvement of the manual. Please send to:

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Please include your telephone number on correspondence to facilitate follow-up communication by telephone.

USING THE MANUAL

Items to be budgeted have been divided into the following five categories:

- 100 — Fixed Costs (*taxes, insurance, etc.*)
- 200 — Operating Costs (*utilities, goods and services*)
- 300 — Reserves (*for replacement and major maintenance*)
- 400 — Administration (*legal, accounting, etc.*)
- 500 — Contingency

Each of the first four major categories have been divided into subcategories or into component line item expenses to facilitate the inventory and budget preparation processes.

The costs that have been developed for condominium developments are those customarily associated with low-rise or garden-type condominiums. Extra care should be taken in using the format or content of this manual when developing budgets for high-rise and luxury buildings.

High-rise Structures

Typically, a high-rise condominium project will employ a full time staff of ten or more employees to perform maintenance and repair. Moreover, some of the building components may be under full service contracts so that the need for replacement of major components may not arise. All high-rise (over 70 feet) buildings are subject to certain safety codes, e.g., fire and elevator safety, which may require the installation of equipment at some specified future date. Funds for the purchase, installation and maintenance of such equipment should be included in the budget.

A limited list of the high-rise components not included in other sections of the Operating Cost Manual are:

Central heating and air conditioning systems (HVAC) comprised of chillers, compressors, and boilers; cooling towers; gas-fired boilers equipped with heat exchangers; emergency diesel generators for emergency purposes; fire protection systems provided by a fire sprinkler system with storage tanks and diesel fuel pumps; master antenna systems; building security and fire alarm systems; closed circuit TV systems, electric door releases; intercom systems; house phones; music and paging systems; glass caulking; window washing/cleaning; compactor maintenance; local license inspection fees; exterior surface repair; etc.

A limited list of the high-rise personnel and indirect expenses not included in the Operating Cost Manual are:

Manager(s), engineer(s) and assistants, head janitor and assistants, security guards, valet(s), door attendants, PBX operators, concierge, front desk; relief, vacation, and bonuses; workers compensation, and payroll taxes.

Because of the complexity of budgets for high rise condominiums, a 10 percent contingency factor is not considered unreasonably high.

A common-interest subdivision may include a common facility which is not covered in this manual. In budgeting for such a facility, it is best that it be broken down into its component

expenses. In the case of a stable, for example, consideration should be given to such component item expenses as electricity, water, custodial service and painting. It should be possible to use data in this manual to calculate the various component costs and to estimate the aggregate cost of maintaining and operating the facility. **EVEN THOUGH AN AMENITY OR COMPONENT MAY NOT BE INCLUDED IN THIS MANUAL, IT SHOULD BE INCLUDED IN THE BUDGET.**

To use this manual, persons responsible for budget preparation should first make a list of all expenses that the association is likely to incur. An analysis of the governing documents for the subdivision and the association is extremely important in the budget preparation process. The governing documents enumerate the duties of the owners' association and specify or suggest areas in which costs will be incurred.

The cost data in Part II of the manual is applicable for a majority of developments located in and around major population centers of California. Data provided is for Northern California and for Southern California, but a further breakdown into smaller geographical areas is only provided for certain expense items, e.g., landscape maintenance for the Palm Springs area. No cost data has been developed for special resort areas such as Lake Tahoe, where costs for goods and services are likely to be substantially higher than costs for comparable goods and services in metropolitan, urban and suburban areas.

Parts III and IV of this manual consist of reserve cost data and budget worksheets to assist in the compilation process.

To estimate certain expenses, e.g., carpeting and painting, it is necessary to have reliable data concerning dimensions of common areas and facilities. One of the first tasks of the governing body or management agent of an association is the preparation of a complete inventory of the areas and facilities to be maintained.

In preparing the inventory, it is best to start with a map, diagram or sketch delineating all of the common areas and facilities. For completed or existing projects the best source of information in completing the map and project inventory is a set of as-built plans covering the project common area. These plans are not only helpful in preparing the project inventory, but also in coping with certain practical problems of management such as turning off water in the event of a broken water line.

If construction plans for the common area of a planned development are not available, the recorded map of the subdivision can serve as a source of information in preparing the project inventory map. For a condominium project, it will usually be necessary for the budget preparer to obtain a copy of the condominium plan from the county recorder or subdivider, as well as:

- copy of the final or tentative map
- architectural elevations and plan views
- engineering plans
- landscape architectural drawings

Other possible sources of information to prepare the project inventory map include a land use map (usually available from the

city or county planning department) and the county assessor's map. If all else fails, a reasonably accurate inventory can be taken through the process of measuring and counting areas and facilities in place.

The inventory of fixtures, furniture and other personal property of the association is usually best made in the beginning by a physical count and by measurement where appropriate. This is probably also the best method for inventorying some items of real property such as lighting fixtures.

It is recommended that associations consider verification and, if necessary, correction of their major component inventory after project start-up. This may be necessary to comply with Civil Code Section 1365.

Variable Assessments

Proration is a procedure to determine the amount to be assessed to each unit in the subdivision to meet budgeted expenses. Prorations may be either equal or variable. Equal proration involves the simple process of dividing the total costs of a budget item by the number of units in the subdivision. Variable prorations entail the use of a factor or factors that differ from one unit to the next, e.g., square footage of floor space. Equal assessments should be used wherever reasonably equitable, since variable proration can be a complicated and controversial process.

Variable prorations should be employed only when services are provided to units in unequal proportions. DRE regulations allow the use of variable assessments against units only if one unit will derive as much as 10 percent more than another unit in the value of common goods and services supplied by the association. Examples of services provided in unequal proportions directly to units are insurance, domestic water and gas, if applicable, and exterior and roof maintenance (the budget items for exterior and roof maintenance are ordinarily the reserves to carry out this maintenance when it is due).

Within a particular project, more than one proration factor may be applied. For example, consider a condominium project with central air conditioning, a swimming pool and valet parking services. It would not be unreasonable to allocate these expense items to each unit as follows:

1. Central air conditioning costs on the basis of the square footage of each unit.
2. Expenses attributable to the swimming pool equally for each unit.
3. Valet parking costs according to the number of parking spaces for each unit in proportion to total parking spaces for the project.

An example of how to determine whether proration is advisable is presented in Figure "A":

Assume a budget for a 100-unit condominium project consisting of 50 two-bedroom units of 1,000 square feet of floor space each and 50 three-bedroom units with 1,200 square feet each. There is a single master meter for domestic water supplied to the project. Electricity and gas are individually metered to each condominium unit.

Using the completed worksheet (see Figure "B"), variable assessments can be computed as follows:

Highest Assessment - Lowest Assessment ÷ Lowest Assessment = % Differential (\$93.46 - \$88.55 ÷ \$88.55 = 5.5%)

The difference in the monthly assessments for the two floor plans is \$4.91. The assessment for a 1,200 square foot unit is only 5.5 percent greater than the assessment for a 1,000 square foot unit. A variable assessment is not considered appropriate since the difference in the level of services supplied to the two floor plans by the owners association is less than 10 percent, the minimum difference allowable for variable assessments under DRE regulations. In most instances, however, variable proration is not considered preferable to equal proration if differential in the level of services supplied by the association to the units is less than 20 percent. Variable assessments should be used when the differential exceeds 20 percent. After determining the percent of benefit derived from services provided by the association, an easy chart to follow would be:

Less than 10%	— equal assessments
From 10% to 20%	— variable or equal
Over 20%	— variable assessments

RE 623, Budget Worksheet, Page 14 has a blank proration schedule worksheet for your use. Your management documents must agree as to equal or variable assessments. Check the appropriate box on page 4 of the Budget Worksheet (RE 623).

Management Documents

It is recommended that the subdivider, attorney and budget preparer discuss the specific maintenance responsibilities of the association prior to preparing the Declaration of Restrictions and budget. In the past there have been problems in determining whether the individual unit/lot owner or the homeowner association was responsible to maintain or repair items in the subdivision. The CCR's should be clear enough to avoid confusion.

A general statement that the HOA is responsible to maintain common areas may be insufficient. There are subdivisions where the purchaser acquires title to a lot but the subdivider, in order to maintain the esthetic appeal to the subdivision, will require the association to maintain exterior paint or landscaping in front yards. Since these areas are owned in fee by the lot owner, the usual definition of common area would not be sufficient. In addition, areas designated as exclusive use common area have caused confusion in the past because of conflicting or confusing definitions in either the CCR's or the Condominium Plan.

FIGURE "A"

<i>Description</i>	<i>Budget — Monthly Column</i>		<i>Variable Costs</i>
	<i>Monthly Costs</i>	<i>Equal Costs</i>	
Insurance	1,000.00		1,000.00
Electricity	600.00	600.00	
Gas (for pool)	200.00	200.00	
Water	400.00		400.00
Custodial	500.00	500.00	
Landscaping	2,500.00	2,500.00	
Refuse	300.00	300.00	
Streets	100.00	100.00	
Pool	100.00	100.00	
Misc. Maintenance	300.00	300.00	
Paint Reserve	600.00		600.00
Roof Reserve	700.00		700.00
Light Reserve	100.00	100.00	
Carpet Reserve	100.00	100.00	
Pool Reserve	100.00	100.00	
Furniture Reserve	100.00	100.00	
Paving Reserve	200.00	200.00	
Management	700.00	700.00	
Legal	100.00	100.00	
Accounting	100.00	100.00	
Contingency	300.00	300.00	
	<u>\$9,100.00</u>	<u>\$6,400.00</u>	<u>\$2,700.00</u>

FIGURE "B"

PRORATION SCHEDULE WORKSHEET

Section I Variable Assessment Computation

A. Variable Costs Description	Monthly Cost
1. Insurance	<u>\$ 1,000.00</u>
2. Domestic Gas (if common)	<u>\$ 0.00</u>
3. Domestic Water (if common)	<u>\$ 400.00</u>
4. Paint	<u>\$ 600.00</u>
5. Roof	<u>\$ 700.00</u>
6. Hot Water Heater (if common)	<u>\$ 0.00</u>
7. Other	<u>\$ 0.00</u>
Total Variable Cost	<u>\$ 2,700.00</u>
B. Total livable square footage of all units from condominium plan:	<u>110,000</u>
C. Variable Factor (<i>variable monthly costs ÷ square footage = variable factor</i>):	<u>.02455</u>
Multiply this factor by each unit size below in Section III.	

Section II Equal Assessment Computation

A. Total Monthly Budget	<u>\$ 9,100.00</u>
Less Variable Costs	<u>\$ 2,700.00</u>
Total Monthly Equal Costs	<u>\$ 6,400.00</u>
B. Monthly Base Assessment:	<u>\$ 64.00</u>
<i>(total monthly cost ÷ number of units = monthly base assessment)</i>	

Section III Assessment Schedule

<i>Unit Size</i>	<i>x</i>	<i>Variable Factor</i>	<i>=</i>	<i>Variable Assessment</i>	<i>+</i>	<i>Base Assessment</i>	<i>=</i>	<i>Total Mth. Assessment</i>	<i>x</i>	<i>Unit Count</i>	<i>=</i>	<i>Total Mth. Budget *</i>
A. 1,000 s.f.	x	.02455	=	\$24.55	+	\$64.00	=	\$88.55	x	50	=	\$4,427.50
B. 1,200 s.f.	x	.02455	=	\$29.46	+	\$64.00	=	\$93.46	x	50	=	\$4,673.00
C. _____	x	_____	=	_____	+	_____	=	_____	x	_____	=	_____
D. _____	x	_____	=	_____	+	_____	=	_____	x	_____	=	_____
VERIFICATION OF COMPUTATIONS								Total Monthly Budget (Section III)				<u>\$9100.50</u>
								Total Monthly Budget (Section IIA)				<u>\$9100.00</u>

* Total Assessment x number of units of each type.

Section IV Variable Assessments

<i>Highest Assessment</i>	<i>—</i>	<i>Lowest Assessment</i>	<i>÷</i>	<i>Lowest Assessment</i>	<i>=</i>	<i>% Differential</i>
<u>\$93.46</u>	<i>—</i>	<u>\$88.55</u>	<i>÷</i>	<u>\$88.55</u>	<i>=</i>	<u>5.5 %</u>

100's — FIXED COSTS

101. PROPERTY TAXES

Stock Cooperatives

Under Revenue and Taxation Code Section 2188.7, effective January 1, 1981, the governing body of a stock cooperative may request segregated taxes and separate tax bills upon satisfying certain conditions of the code. Because of the time involved, the budget for a stock cooperative or community apartment project should include the estimated annual property tax against all unsecured real property comprising the subdivision.

Under provisions of the Revenue and Taxation Code, if a unit in a stock cooperative or community apartment project is purchased or otherwise changes ownership, only that unit can be reappraised by the assessor. Because of these provisions, it is incumbent upon county assessors to separately assess the individual units in stock cooperative and community apartment projects. A single tax bill covering the entire property may be issued the first year.

Planned Developments

In planned developments, common area taxes are normally assessed on a pro rata basis to the individual dwelling units which make up the development in accordance with Section 2188.5 of the Revenue and Taxation Code. There is ordinarily no need for the association to budget for property taxes against common areas and facilities in a planned development. There are reports, however, that some county assessors may assess a portion of the value of common area and improvements to the association having title to the property as a means of assuring that the property does not escape a fair assessment. It is, therefore, strongly suggested that an owners' association consult with the county assessor on his proposed plan for assessment of the common areas and facilities before preparing the budget. Common area lots might also be assessed property taxes under provisions of Mello Roos Special Tax Districts.

Condominiums

In the case of a condominium development in which the owners' association holds title to recreational common area, it is possible that this property will be separately assessed to the association. Again, this is information that should be obtained from the county assessor before a budget is prepared.

Common area which is owned by owners of individual units as tenants in common must be assessed on a prorated basis to each owner of a condominium unit pursuant to Section 2188.3 of the Revenue and Taxation Code.

Lien Date

Real property is assessed in California on March 1 of each year (lien date). Under Section 75.12 of the Revenue and Taxation Code, property will be reassessed at the date the new construction is deemed complete. Availability for use and occupancy may affect this date if proper notice is given to the Assessor's

Office. If the first sale of a unit in a subdivision has not been closed as of that date, the tax collector may bill the association or builder for the entire subdivision. Shortly thereafter, the first or supplemental tax bill will be sent to the new owner.

102. CORPORATION FRANCHISE

Most associations can qualify for tax exempt status under state law if they are able to meet federal requirements for treatment as tax exempt organizations under Federal Income Tax Codes. If an exemption is granted by the Franchise Tax Board, an incorporated association will not have to pay the minimum state franchise tax (currently \$800.00 per annum). If granted, all associations — both incorporated and unincorporated — must annually file an informational tax return with the Franchise Tax Board. The annual fee is currently \$10.00 and the initial fee is \$25. As in the case of the federal law, an association must file a tax return and pay income tax to the state for its non-exempt income.

103. INSURANCE

The following information is not intended to cover all facets of insurance for common-interest subdivisions. There are a great many aspects which should be considered to give the association proper coverage. The purpose of this section is to alert governing bodies to the need of tailoring casualty insurance and commercial liability insurance to the needs of the owners and association collectively.

The minimum insurance coverage required to be carried by a common-interest subdivision association is usually specified in the governing documents for the development as well as governed by Civil Code 1365. However, the governing body will have many factors to consider in determining the most adequate insurance coverages to obtain for the most reasonable cost. It may not be in the association's best interest to obtain only the minimum insurance as required in the Covenants, Conditions and Restrictions. All common interest developments should consider insurance covering commercial property, commercial liability, Directors and Officers Liability, Fidelity Insurance and Workman's Compensation insurance and earthquake insurance.

Fire and Allied Coverage Insurance

A Broad Form Endorsement is now generally considered to be the basic minimum casualty insurance coverage which governing instruments stipulate. The cause of loss covered under this type of policy include:

Fire losses covering; fire and lightning. Extended coverage endorsement losses covering; smoke damage, explosion, riot, civil commotion, falling aircraft, vehicle, hail and wind.

Policies may be written with a special form coverage endorsement more commonly referred to as "Risk of Direct Physical Loss." The "Risk of Direct Physical Loss" endorsement covers losses not specifically excluded in the policy form. Typical losses excluded are: wear and tear, earthquake, flood, earth movement, loss occasioned by an ordinance, war, and nuclear

reaction. Typical property items excluded are: plumbing, heating, air conditioning, steam boilers, machinery, electrical appliances, metal smoke stacks, limited glass, lawns and fences. Many of the losses specifically excluded may be added to the policy or other policies obtained covering specific losses. Examples of coverages which may be added to the policy for additional cost are losses due to: earthquake, boiler and machinery and glass breakage. A flood insurance policy can be purchased separately.

Flood Insurance

If the development is located in a designated Flood Hazard Area, as determined by the U.S. Department of Housing and Urban Development, the lender will require flood insurance. Contact a local insurance agent or broker for further information.

Planned Development Coverage

Fire, casualty and other insurance carried by the homeowners' association in a planned development is customarily limited to coverage attributable to destruction, damage and injuries which occur on the property owned by the association or by the owners in common. The individual owner in a planned development normally carries fire and liability insurance on the individually owned lot. In some cases, however, where the planned development involves clustered or townhouse-type residential structures, the association obtains a blanket policy covering all dwelling units. An advantage to the blanket policy is the lower premiums for equal coverage.

Condominium Insurance Coverage

In a condominium development, there are two distinct ownership interests in real property to be insured. There is commonly owned property which normally comprises all of the real property except that which is enclosed by the interior surfaces of the cubicles of space. Within the cubicles of space are such items of insurable real property as built-in cooling systems.

Lenders financing the condominium development with attached units, as a whole, will insist upon a blanket insurance policy providing single coverage for all of the insurable real property within the development. An association must obtain coverage sufficient to satisfy the requirements of all lenders involved in rebuilding units in the project in case of a major loss. Failure to do so could result in the creating of problems between some unit owners and their mortgagees. Each individual owner should satisfy himself that the master policy adequately covers his insurable interest in the real property. If it does not, the individual owner may (if allowed by CCR's) secure his own insurance for the real property as well as the personal property located within the cubicle of space that is individually owned.

Package Policies

Package policies are available which usually offer more coverages at a lesser cost than coverages sold separately. Optional coverages are available to meet specific needs.

Clauses Affecting Fire and Other Hazard Coverages

Some of the features of commercial property insurance policies with which governing bodies should be familiar in discussing

coverage with the insurers or insurance agents include the following:

Suspension of Coverage

Many standard policies include a condition under which insurance is suspended if the particular hazard insured against is increased by means within the control or knowledge of the insured. Governing bodies negotiating insurance policies should seek the deletion of this clause or at least modification.

Co-Insurance Clause

Some policies include a co-insurance clause which will operate to limit the insurer's liability (with a corresponding reduction of policy premium) in the event of a loss if the improvements are insured at less than 80% of their current replacement value at the time of loss. A "co-insurance clause" places the responsibility of insuring the improvements at 80% or more upon the owners to avoid having a depreciated value given to the improvements in settlement of a loss. The effect of this clause is that if the amount of insurance falls below the required percentage of current replacement value the insured will co-insure replacement costs with significant out-of-pocket costs involved. In most cases a "co-insurance" clause can be deleted through a waiver of co-insurance with an "Agreed Amounts" endorsement. In this case the insurance company agrees to pay a "flat" amount of the actual loss up to the agreed amount limit per occurrence per year.

Commercial Liability Insurance

Liability insurance in the past few years has become the single most important coverage available to any common-interest subdivision association. The possibility of financial loss from a liability claim is many times greater than a loss by fire.

The primary coverage under any commercial liability insurance is the protection against financial loss caused from being legally liable for the death or bodily injury of another and/or for damage to property of another. Liability coverages must be designed to conform to the unique features of each development to preclude any lapse in coverage which could financially peril the common-interest association. General liability policies do not cover all incidents which could result in financial loss. Care must be taken to determine what is covered and what additional coverages are needed to fully protect the individual association.

The commercial liability policy should be written to insure the association, its governing body and members of the association. It may also be advisable to include employees of the association as additional insureds.

Umbrella Commercial Liability Coverage

This type of liability coverage is usually written above a base coverage amount. Then the so-called liability umbrella coverage may then be purchased in increments of \$1,000,000. Also available in umbrella policies are "first dollar defense" coverage which provides for payment of all cost incurred in legal defense even without being held legally liable. Refer to Civil Code 1365.9 regarding civil liability protection to owners.

Workers' Compensation

Workers' Compensation is a form of liability insurance coverage that by California law must be maintained by any entity which

falls within the statutory definition of “employer” to secure the payment of compensation to employees or their survivors in case of the injury or death of the employee attributable to his employment. **Because the definition of an “employee” is extremely broad, it is recommended that an allowance for this be included in all budgets.**

Other Insurance

Insurance can be purchased for protection against loss not ordinarily provided by fire or liability policies. These include a fidelity insurance for loss through the fraudulent or dishonest acts of employees and errors and omissions insurance to protect the association against loss resulting from the negligent acts, error, omission, or breach of duty by officers or directors of the association.

Costs

The best estimate can be obtained from an insurance agent prior to premium renewal or before start-up of a new association. IT IS STRONGLY RECOMMENDED THAT A BID OR RELIABLE ESTIMATE BE OBTAINED FROM AN INSURANCE BROKER WHENEVER POSSIBLE. BEFORE CONTACTING AN AGENT IT IS IMPORTANT TO READ YOUR GOVERNING DOCUMENTS TO DETERMINE YOUR INSURANCE REQUIREMENTS. A proposal for insurance should be included as backup to the budgeted figure. Also, your lender may have additional requirements that should be considered.

Associations that have a deductible of \$1,500 to \$5,000, or more, should consider setting up a fund to cover small claims not normally covered by the policy and to cover the deductible expense.

If your documents require additional coverage such as Directors and Officers or Fidelity Bond, Workmans Compensation, Earthquake, etc., this amount should be included with your proposal.

Note: *Ordinarily the fidelity amount should include three months of operating income plus an amount equal to the accumulated balance of the reserve fund.*

The rate for your area should be determined by contacting several agents or insurance companies.

104. LOCAL LICENSE AND INSPECTION FEES

Local governing bodies (city and county) require license and inspection fees on swimming pools and elevators. The dollar amount for these annual inspection and license fees vary from city to city. Elevator fees may run from \$100 - \$150/year. Check local agencies for actual amounts.

Business licenses may be required if homeowners' associations install vending machines or coin operated laundry machines.

105. ESTIMATED INCOME TAXES

Under provisions of the Federal Tax Reform Act of 1976, a condominium or planned development association may elect to be treated as a tax exempt organization for federal income tax purposes for taxable years after 1973 if certain prescribed

conditions are met. Among other conditions, the association must be organized and operated for “exempt function purposes,” not less than 60 percent of its gross income for the taxable year must consist of dues or assessments from members who are owners of dwelling units in the subdivision and at least 90 percent of the expenditures of the association for the taxable year must be for “exempt function purposes.”

Exempt function purposes” is defined to mean the acquisition, construction, management and maintenance of property held by the association or property commonly owned by members of the association or governmental property which is used for the benefit of residents of the association.

If a homeowner association qualifies as a tax exempt organization, net non-exempt function income is still subject to income tax. “Non-exempt function income” includes fees from non-members for use of the facilities of the association and amounts paid by members over and above regular dues and assessments for special use of facilities. The situation is now quite similar with respect to the payment of state income taxes.

The amount to be budgeted for federal and state income taxes will depend in large part upon the anticipated extent of income-producing, non-exempt functions of the association. The governing body of the association should seek advice from a CPA or good accountant with respect to obtaining tax-exempt status and in reporting non-exempt function income.

The required filing of the Statement By Domestic Nonprofit Corporation, Form 100, must be filed annually to the Secretary of State in the State of California. The filing fee must accompany the statement and designate the agent for service of process.

200's — OPERATING COSTS

201. ELECTRICAL ENERGY

Due to fluctuations in energy costs and the unpredictability of future rates, it would be of little assistance to budget preparers to show electrical power rates for even the major utilities in California. Therefore, it is recommended that the budget preparer obtain current rate information from the supplier of electrical power prior to completing the Electrical Energy Consumption Worksheet in Part IV.

The ways in which electrical energy is consumed within a subdivision development are too diverse to guess the costs of electrical power to the common areas without an inventory of electrical equipment, appliances, etc., including the consumption rate of the equipment and an estimate of the hours of use over a given period of time. The worksheet in Part IV of this manual is designed to assist the budget preparer in this inventory process.

Hot Water

If hot water, heated by electricity, is supplied by the homeowner association to each dwelling unit (including laundry facilities), 540 KWH per month, per unit per 30 gallon water heater is a reasonable estimate of consumption.

Air Conditioning

One ton (1 ton = 12,000 BTU's) of refrigeration will serve

approximately 400 to 600 square feet of floor area in a residential structure. Each ton of capacity requires approximately 1.4 KWH per hour of operation. The hours of operation of an air conditioning unit depend upon such factors as the outside temperature, insulation in the structure, exposure to the direct sun and other factors. If you assume a 500 square foot recreation building is used eight hours a day, seven days per week, the cost can be calculated as follows:

$$\frac{8 \text{ hrs} \times 7 \text{ dys/wk} \times 52 \text{ wks} \times 1.4 \text{ KWH}}{500 \text{ SF}} = \frac{8.15 \text{ KWH}}{\text{SF/YR}}$$

The factor shown on the electrical worksheet is estimated for 6 months of use per year.

Pools and Spas

The electrical energy needed for swimming pools and spas is consumed by a water circulating pump in each unit plus a blower motor in the spa (or occasionally electric heaters). A rough estimate of energy consumption per month for each can be made if the horsepower of the motors can be determined. Circulation pumps generally operate 8 to 12 hours per day, 100% of the year due to health and sanitary reasons. Spa blowers operate when the unit is used. Twenty minutes per unit, per day is a reasonable estimate of time use for spa blowers on smaller projects. Large projects would use up to 12 hours maximum. (See electric worksheet.)

<i>Pump Type</i>	<i>Typical Motor Sizes</i>		
Spa/pool pump	1	– 2	HP
Spa blower	1 1/2	– 2	HP
Solar Pump	1/12	– 1/4	HP
Sump Pump	1/4	– 1/2	HP

Larger spas and pools will require larger motors.

Hours of use for solar pumps would depend on the size, location (climate) and efficiency of the system. A closed system that is tied to the pool circulation pump, would run while the cleaning/circulating pump is operating.

General Equipment Requirements

<i>Size of Pool</i>	<i>Motor</i>	<i>Heater</i>	
Average Spa	1 HP + 1 1/2 to 2 HP Blower	250,000	BTU
15,000 gallon	1 HP	250,000	BTU
20,000 gallon	1 1/2 HP	325,000	BTU
40,000 gallon	2 HP	400,000	BTU
150,000 gallon	Varies	2 @ 400,000	BTU

Other Pump and Motors

Hot water circulation pumps can range 1/12 to 1/4 HP.

Security gate motors can vary depending on size and weight of the gate and method of opening.

Normally, structures with subterranean parking should include a sump pump(s) as a line item in the budget. If an electrical ventilation system is installed, include on the electrical consumption worksheet.

202. GAS ENERGY

Due to increases in energy costs over the past few years and the unpredictability of future rates, it would be of little assistance to budget preparers to show gas rates for even the major utilities. Therefore it is recommended that the budget preparer obtain current rate information from the supplier of gas as far down the line as possible in the budget preparation process. The rate schedule for common-interest subdivisions should be used rather than the rate schedule for single family residences.

Gas rates are usually “per therm”. A therm or thermal unit is equivalent to approximately 100,000 BTU's. A cubic foot of natural gas presently contains approximately 1,050 BTU's.

Charges for natural gas can be approximated by multiplying the estimated consumption in therms by the rate for the area in which the subdivision is located. (See Gas Consumption Worksheet in Part IV.)

Example: Assume a heating unit with a 50,000 BTU/hour input rating which is to be operated 70 hours per month. (The BTU rating of equipment utilizing gas energy is shown on a metal plate on the equipment. If both an input and output rating are shown on the plate, the input rating should be used in all calculations.)

$$\frac{50,000 \text{ BTU's} \times 70 \text{ hrs}}{100,000} = 35 \text{ therms/month}$$

Hot Water

Generally, the cost of supplying hot water to the individual dwelling units in any common-interest subdivision is billed to the owner or resident of the unit. The water heater itself is usually a part of the dwelling unit. In some cases, the owners' association must pay the costs associated with supplying hot water. In budgeting for hot water, the governing body of the association should consider the following facts:

- If water heated by natural gas is supplied by the association to each dwelling unit (including the laundry facilities with the unit), consumption should average approximately 20 therms per unit per month.
- A recreation room with a kitchen in a clubhouse facility consumes energy approximately equivalent to that consumed by one dwelling unit.
- If automatic washers and dryers are coin operated by the association, it is not ordinarily necessary to budget gas as an expense item because the income derived normally offsets the utility and maintenance costs.
- For associations that supply domestic hot water to units heated by propane, the following conversion factors may be helpful:

Approximately 800 cubic feet or 22 gallons of propane is necessary to supply one dwelling unit per month.

Pool Heating

Consumption of gas for pool heating is subject to many variables. On the average, it costs seven times more to heat a pool in winter than during the summer. Outside temperature, wind and humidity can also affect the amount of gas consumed in any one month

for heating pool water by as much as 50%. The human factor must also be taken into account. If the users of the pool insist upon a water temperature of more than 75 degrees, the cost of heating is significantly increased.

In calculating the monthly cost of pool heating, the following information should prove useful:

- 8.33 BTU's are required to heat one gallon of water one degree Fahrenheit in one hour.
- 100,000 BTU's equals 1 thermal unit or therms.
- 40,000 gallon pools in Southern California rarely lose more than 8 degrees overnight.
- If propane gas is used for pool heating, it should be noted that 1 therm = 1.1 gallons and 1 gallon = 36.4 cubic feet. Also, 1 cubic foot = 2,500 BTU's. This information should allow you to compute the cost if you know the cost per gallon (see Gas Worksheet).

Note: The presumption is a recreation pool, with heating equipment, will be used all year or 100%. For very hot or cold climates where a heater will not or cannot be used all year, a 70% usage should suffice.

Space Heating

The best guide in budgeting for an existing facility is to multiply the historical energy consumption times the current utility rate. If there is no history or if for any reason the history is not reliable, one can assume that the installed heating unit or units are of adequate capacity. To calculate the cost of heating, multiply the BTU input of the heater by the anticipated hours of operation per year and divide the product by 100,000 to determine the number of therms per annum. Then multiply the number of thermal units by the per therm cost of gas in your area. Add 15% for pump and blower operation.

The number of hours for which heat will have to be supplied to a structure will vary according to climatic conditions and construction features. In a moderate climate, 800 hours per year is a reasonable estimate based upon 4 hours per day, 200 days per year.

Solar Heating

Solar Pool and Spa Heating

Solar systems for pools can greatly reduce or eliminate the need for expensive natural gas for pool heating, depending on the level of swimming comfort and the length of swimming season desired. Solar can also be used to heat hot tubs or spas in conjunction with conventional heaters and may reduce gas consumption by up to 25%.

“Active” solar pool heating includes collector panels, controls, and plumbing. The pool’s own filter pump serves to pump the water up to the collectors, where it is warmed, and back down to the pool. The collector area needed to provide 100% of pool heating needs is equivalent to the surface area of the pool; typically, systems are sized to provide 60-75% of the need. Price per square foot installed is in the range of \$12–\$14. Homeowner’s association sized pool heating systems cost in the range of \$4,500 – \$8,500.

Solar Water Heating

Solar water heaters are generally sized so as to meet 70% of the demand for hot water on an annual basis. “Back-up” systems using electricity or natural gas supply the other 30%. In a condominium building, solar water heating is most economically installed as a central system with centralized back-up. In a townhouse-type development, individual systems for each unit are often used. Solar water heating systems may be integrated with solar pool heaters.

Solar water heating systems include glazed collectors, a storage tank, a pump, controls, and plumbing. The size of system required depends on the hot water needs of the residents. Common rules of thumb hold that hot water use is 20 gallons per person per day in multi-family housing; that 1/2–3/4 square foot of collector space is needed for every gallon of demand; and that 1 1/2 – 2 gallons of storage capacity must be provided for every square foot of collector space. Thus, a family of 4 using 20 gallons of water apiece will require 40–60 square feet of collector and between 50 and 120 gallons of storage space. On multi-family new home construction, the California Energy Commission estimates the cost per unit for solar water heating to be about \$1000. Townhouse-type construction with individual solar systems generally cost more.

The California Energy Commission estimates that the average family of four living in a multi-family housing structure will save 211 therms of gas a year with a solar water heater.

Solar Space Heating

Ideal installation can expect a maximum savings in energy consumption for space heating of 50%.

Leasing Solar Equipment

It has become more popular to lease solar equipment for hot water and pool heating. In many cases, the monthly savings in energy is enough to make the lease payment. In addition, users of a leased solar equipment may still be eligible for some tax credits. If your association leases equipment, the monthly payment amount should be included in the budget.

203. WATER

Common-interest subdivisions use water for irrigation purposes for common areas, for supplying water for swimming pools, clubhouses, recreational facility showers, laundry rooms and dwelling units which are not individually metered.

Water rates vary appreciably from place to place and the rate for estimating association expenses should be obtained from the supplier of water to your subdivision. Rates are customarily quoted as cost per 100 cubic feet.

Irrigation of landscaping typically consumes four-acre feet of water per acre, per year. However, weather conditions and the type of soil can have a significant effect upon this average. Projects in the Palm Springs area generally use 8-12 acre feet per year. Water usage will vary greatly with sprinkler system design.

Domestic consumption assuming 2-1/2 occupants per unit can be estimated at between 200 and 250 gallons per day, per unit or about 33 cubic feet per unit, per day.

Some developments equipped with sprinkler systems or fire hydrants may be subject to a fire standby charge and should be included in the budget.

You may obtain the proper rate from your water district by contacting the customer service department of the water supplier to your subdivision. Also, a determination should be made whether or not any fees will be required. A worksheet for calculating water costs is included in Part IV of this manual.

204. SEWER

The cost of sewer treatment is most commonly charged in one of three ways: 1) additional charge on individual property tax bill; 2) surcharge on water bill based on amount of water usage; or 3) flat fee per unit or lot.

If the project for which the budget is being prepared has separate water meters for domestic use and the sewer charge is on the water bill, this item should be marked with a zero and noted accordingly.

Septic Tanks

Properly installed and operating septic tanks should last the life of the improvement being served. On an average of every three years, septic tanks must be pumped at a cost ranging from:

Normal Maintenance and Operating Costs/Per/Year

- Pumping septic tanks \$150.00/tank
- Emergency services \$25.00* (unit/year)
- * Associations that tend to have continual problems should raise this portion of the cost to \$25.00 to \$30.00 per year.

205. CABLE TELEVISION/MASTER ANTENNA

The range of the monthly contract rate for cable TV is from \$10 to \$25 per unit, depending upon the locality and the extent of the service offered. Check with your cable provider to determine the actual amount.

Some projects may be served by a master antenna system. These installations normally consist of a master antenna receiving certain signals and amplifying and conveying the signals by cable to the individual units. The cost of maintaining this system may be minimal if the antenna is mounted on the roof of a two or three story multiple family structure and serves only the units in the structure. In such cases, the maintenance cost normally ranges from \$0.75 to \$1.25 per unit, per month.

More extensive systems are provided in large projects and may require extensive underground cabling. Costs for this type of service generally run from \$2.50 to \$5 per unit, per month.

207. CUSTODIAL

This category includes the cost of services for floor cleaning, carpet vacuuming and shampooing, window washing, furniture dusting, and similar janitorial work. For cleaning and maintenance of carpet, figure \$0.07 per square foot per month. For care of hardwood floors and tile, estimate \$0.17 per square foot per month. If the work is independently contracted for, the rate will be approximately \$10 per hour. If the work is to be done by

employees of the association, \$6.50 per hour, or two-thirds of the contract rate is a reasonable estimate of the expense.

The cleaning and maintenance of rest rooms and laundry rooms may be provided for under a blanket maintenance contract with an independent contractor. If not, the separate cost for this work should be budgeted at \$25 per cleaning for each two rest rooms and \$20 per month for each laundry room. Five to nine cleanings per month should be adequate to keep the rest rooms in presentable condition.

There are always economies of size, and large areas (over 3,000 square feet) will cost far less per square foot than small areas. ***In no event should custodial service be calculated at less than \$150 per month for any type of custodial cleaning.*** In small projects it might be more economical to have the landscape contractor do the custodial work.

All employers in the State of California are required to implement and maintain an effective written Injury and Illness Prevention Program (IIPP) (California Labor Code 6401). Should the association determine to hire its own employees rather than independent contractors for services such as janitorial, landscape maintenance, pool and spa maintenance, the association then becomes the employer and must comply with the IIPP requirements for employers in California.

208. LANDSCAPE MAINTENANCE

With the exception of high-rise structures, landscaping costs often represent one of the largest single budgetary items in common-interest subdivisions. Proper budgeting requires careful consideration of the anticipated intensity of use of the landscaped area and the level of maintenance desired.

The costs represented in the tables are averages for the three areas listed. Urban areas in Northern California should use the costs shown next to Southern California. **THE COSTS INCLUDE NORMAL LANDSCAPE SUPPLIES. In any case, not less than \$75 per month should be used.**

Golf Courses

Normal maintenance, not including over-seeding or flower planting, averages approximately \$0.70/SF/YR*. In addition to a cost per square foot per year, the budget preparer should create a landscape maintenance budget that would consider the cost of staff, equipment, irrigation repair and other unique activities that are mandated for the maintenance of golf courses. It is recommended that bids be obtained in order to determine your cost more accurately.

Classes A and B

Areas consisting of 60% to 70% grass and 30% to 40% shrubs, trees and flower beds. (If planting areas are broken up into a large number of small plots, the rate is likely to be higher than for the maintenance of mass plantings.)

Palm Springs	– \$0.33 to \$0.54/SF/YR (includes fall over-seeding)
Southern California	– \$0.25 to \$0.35/SF/YR
Northern California	– \$0.21 to \$0.28/SF/YR

Class C

Areas with 90% to 100% lawn sufficiently open to permit the use of a large riding mower.

Palm Springs	– \$0.28 to \$0.39/SF/YR
Southern California	– \$0.19 to \$0.27/SF/YR
Northern California	– \$0.16 to \$0.22/SF/YR

Class D

Gentle slopes with low maintenance ground cover.

Palm Springs	– \$0.18 to \$0.30/SF/YR
Southern California	– \$0.09 to \$0.20/SF/YR
Northern California	– \$0.07 to \$0.17/SF/YR

Steep and/or show slopes.

Palm Springs	– \$0.30 to \$0.40/SF/YR
Southern California	– \$0.20 to \$0.31/SF/YR
Northern California	– \$0.16 to \$0.22/SF/YR

Class E

Unplanted or natural areas requiring weed abatement, fire breaks, rodent control (see Item 217), erosion/drainage control, trash pickup, etc. Small natural areas and fuel-modified zones or those requiring brush control should use the high end of the range. Large areas of open space—use lower amount.

– \$0.01 to \$0.06/SF/YR

Class F

Bridle paths	– \$0.02 to \$0.05/SF/YR
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* SF/YR = Square foot per year

Trees

If trees exist on the property and require additional maintenance see Item 313.

Supplies

An additional line item should be considered to cover the cost of supplies, sprinkler repairs and landscape replacement. An amount of \$.01/sf/year for irrigated areas is a good preliminary number until the association has some history of expenses in these areas.

Environmental Compliance

Costs for maintaining environmentally sensitive areas such as wetlands, oak tree preservation, tide pools, etc., should be estimated by professionals specializing in this type of maintenance.

209. REFUSE DISPOSAL

This service may be supplied by a municipality or a service district. It is more frequently provided by an independent contractor. The service may provide for individual garbage can collection or for bin pickup. Normally, there is one bin for twelve units.

Where individual garbage can collection service is provided, it is unusual for the association to bear the costs of refuse collection

except that provided to the recreational common area of the development.

It is best to contact the local agency or vendor in your area to get an accurate cost estimate of pickup charges. Include the name and telephone number on Page 3 of RE 623 if applicable. Costs have averaged \$12 per unit per month.

Individual cities may impose special requirements for recycling, etc., this should also be considered when determining the cost of this service.

210. ELEVATORS

The most commonly used elevators are either overhead traction or hydraulic lift. The costs for service contracts are as follows:

Overhead Traction Type

Full service contract	– \$3,500 - \$5,000/YR
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Hydraulic Lift Type

Full service contract	– \$2,000 - \$2,500/YR
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High Speed Elevator

High speed overhead elevators are usually found only in high rise buildings. They are ordinarily serviced under a long-term service contract provided by the manufacturer. Maintenance costs payable by the association will be contained in the contract. If these elevators are not maintained by an independent contractor under service contract, information necessary to budget for the maintenance should be obtained from the manufacturer or its representative.

Include an additional \$100 per year per elevator for interior maintenance or refurbishment.

211. PRIVATE STREETS, DRIVEWAYS AND PARKING AREAS

Sweeping

Sweeping is normally done once a month. The present contract rate is approximately \$50.00 per acre of street surface area per sweeping with a minimum charge of \$35.00. Occasionally the cleaning of streets, driveways and parking areas are included in the maintenance contract for landscaping. Sometimes costs are based on a per unit or per lot cost rather than on an acreage basis.

Maintenance costs will vary due to such factors as soil condition, road base, weather conditions and quality of construction.

Subterranean garages should be swept once a week and washed to remove oil and grease stains at least once a month. In budgeting for this work, use a figure of \$1 per space per month, or one-half cent per square foot of garage area per month. If this service is included in the landscape maintenance contract, there is no need to budget separately for it.

212. HEATING AND AIR CONDITIONING MAINTENANCE

In all planned developments and in most cluster, garden and low-rise condominium structures, heating and air conditioning equipment for dwelling units is individually owned by the owner of the dwelling unit. The individual owner has sole responsibility for the costs of operating, repairing and replacing the heater and air conditioner, which supplies the dwelling unit. Sometimes air conditioning units are located within the interior of a condominium unit, but the cooling coil may be connected by tubing and electrical wiring to a condensing unit on the roof within the common area. The CC&R's usually provide that the maintenance and replacement of the condensing unit is the responsibility of the unit owner even though it is located within the common area.

It is not uncommon for a condominium owners' association to own central heating and/or air conditioning equipment which supplies dwelling units within the development. In planned developments, the association owns and maintains heating and air conditioning equipment for the clubhouse, dressing rooms, and other structural improvements of the common area.

Simple wall heaters and floor furnaces usually only require regular periodic cleaning. This generally can and will be handled by the building custodian in a recreation building and by the individual owner in a dwelling.

Forced air heating units require filter cleaning or changing and occasional lubrication. These costs can generally be handled under miscellaneous repairs.

Combined heating and cooling units require a regular servicing and an allowance of \$10.00 per month should be considered for average recreation rooms. Larger installations may be on a separate service contract and a budget allowance should be provided to adequately cover the contract price.

213. SWIMMING POOLS AND SPAS

Weekly Service

Cost for professional pool service varies with size and location. The average charge for a pool is \$25.00 per call. If a spa is included, the charge is \$30.00 per call. Average winter service can be taken care of with 1 or 2 calls a week. Summer service can be done with 2 or 3 calls per week. However, heavy use in large projects or those with many young people, will require more frequent care than the average.

Multiple pools in one location can reduce the average costs per pool as much as 40%.

Prices shown include chemicals. Additional maintenance such as an acid wash or supplemental supplies are not included. The minimum costs per month are:

Pool only	\$150.00/month
Spa only	\$ 90.00/month
Pool and spa	\$200.00/month

Note: The costs represented are averages only. It is highly recommended that an estimate be obtained from local maintenance companies.

For larger pools in excess of 500 square feet, \$0.25 per square foot per month should be used to estimate the monthly service cost.

214. TENNIS COURTS

Maintenance and Operation (Asphalt or Concrete)

- Sweeping
(1 hr per wk at \$6 per hr) \$25.00/month
- Refuse pickup
(10 min per day at \$6 per hr) \$30.00/month
- Total \$55.00/month
- Night lighting energy cost - use worksheet.

Sweeping and refuse pickup may be included in the landscaping contract.

215. ACCESS CONTROL

There are any number of systems and devices that can be employed to enhance the control of access to the property. These include:

- Individual key systems with magnetic locks providing entry to individual dwelling units. This may be used in conjunction with an intercom, telephone or closed circuit television setup. Operational and maintenance costs may be carried by individual owners or the association.
- Motorized gate maintenance costs are estimated as follows:

Type of Gate	Maintenance (per month per gate)
Arm type	\$60.00
Sliding gate	\$60.00
Overhead gate	\$60.00
Swinging gate	\$80.00
- A patrol service on a contract basis. If motorized, figure \$13.00 to \$15.00 per hour. For a foot patrol, slightly less.
- Attended guard gates. If 24-hour per day service is provided by contract to the association, it will require 4.5 people on a 40-hour workweek basis with all the normal employee benefits. At a monthly rate of \$2,400 per person, the annual cost per guard gate would amount to \$129,600. In some developments, cost reductions for automobile entry gates are being realized through the use of closed circuit television. If an automobile is assigned to a guard gate, add \$3,500 per automobile to the annual budget.

Intercoms and Telephone Entry Systems

Intercoms would normally require \$1.00 per unit, per month to cover maintenance and service calls, with \$25.00 per month as a minimum. Costs for telephone entry systems average \$45.00 per month per directory location. If you have rented telephone entry equipment, the monthly cost may be higher. Contact your telephone company for an estimate. If a TV system is included, the servicing could be higher and a reserve for the equipment should be provided.

If your project includes a major recreation facility, it is recommended that consideration for a telephone be budgeted at each center at an estimated cost of \$45/telephone/month.

216. RESERVE STUDY

Subject to certain limitations, California Civil Code Section 1365.5(e) requires the governing body of a common-interest development to cause a study of the reserve account requirements of the subdivision, every three years. It is recommended that a subdivision within the first year of its operation initiate the beginning of the three year requirement and have the Reserve Study performed. It is also recommended that as subsequent phases become annexed into the subdivision, the reserve study be amended to reflect the new reserve components recently annexed.

Our Operating Budget Guidelines are intended for use during the first year of operation of a common-interest subdivision. It is recommended that the governing body of the association transition the use of the DRE budget to that of an operating budget, reflecting current actual costs as they exist.

Reserve study costs generally fall within \$800–\$2,500. Depending upon the size of the community and amenities included it may go higher. Updates can be as minimal as \$450 per study.

217. MISCELLANEOUS MAINTENANCE

Minor Repairs

For miscellaneous maintenance of common facilities and dwelling units for new construction, include the following on a per unit per month basis:

- With association maintained exteriors \$3.00
- Without association maintained exteriors \$1.00

In the case of condominiums converted from multiple residential structures which are more than eight years old, a figure of \$4.00 per unit per month is reasonable for miscellaneous maintenance.

Pest Control

For those projects requiring pest control services the average cost is ordinarily \$2.00 per unit per month.

In accordance with Civil Code Section 1364(b)(1) a community apartment, condominium project, or stock cooperative, as defined in Section 1351, is responsible for the repair and maintenance of the common area occasioned by the presence of wood destroying organisms unless the CCR's indicate otherwise.

The required reserve for termite extermination has been removed from this manual. This reserve item can now be considered optional. When and where an infestation occurs and how severe the infestation will be is difficult to predict. Annual inspections are needed to discover any infestation in its early stages before it becomes a serious problem. For all potential pest problems, frequent pest control inspections are necessary. The average cost for pest control service is ordinarily \$2.00 per unit per month or \$30.00 per month whichever is the higher cost.

It is suggested that if an infestation does occur, obtain at least three bids from extermination companies. If a reserve has not been established, a special assessment may be needed at that time to pay for the extermination expenses. In addition to pests, larger planned developments with detached units may have a problem with rodents. Slope areas can incur considerable damage from rodents. Allowing \$100 to \$200/acre/mo. of irrigated landscaping for rodent control is reasonable.

Lakes and Waterways

Maintenance, operation and reserve costs for water works projects are directly related to the initial engineering of the system. A poorly designed system will be less energy efficient and therefore more costly to maintain and operate.

The average cost to maintain small lakes and waterways range from \$0.20 to \$0.25/SF/YR with waterways at the high end of the range. The cost to maintain large lakes (10-13 acres) ranges from \$0.72 to \$0.84/SF/YR. Add to this cost \$25.00 per pump per month for pump maintenance.

Operating and reserve estimates for larger lakes should be determined by a geotechnical engineering study of the entire system and/or a consultant specializing in lake environments.

Snow Removal

Snow removal costs should be based on an average year's snowfall. When snow removal is to be contracted, estimates or bids should be obtained from local contractors. Average cost is approximately \$.20/SF/YR.

If the association is to use its own equipment and employees, the full hourly rate of employees is to be multiplied by the necessary hours of work involved. The costs of operating any equipment should be added. Reserves must be established to replace tools and equipment.

Community Network

Many developers and builders are installing high speed cable systems in their homes with the idea of providing community intranet or a Web site. Costs associated with this technology can run from \$8,000 per year to \$200,000 per year depending on the level of sophistication of the system and the site.

The fee to the service provider will run about \$25 to \$50 per unit per month depending on the level and number of services provided. Actual contracts should be used to support the cost used in the budget whenever possible.

300 — RESERVES

The reserve section of this manual only includes components or costs for items most frequently found in common-interest subdivisions. Reserve items for your budget may not be limited to those found in this manual. Your budget should be tailored to fit your project and include necessary reserves for all appropriate items.

Different components wear out at different rates. A deck chair may be unusable after two years while the roof may last for twenty years. Good property management practices call for a fixed amount to be allocated each year to insure that the association will have sufficient funds on hand when a predictable major expense must be paid. Even if every existing owner believes that he or she will sell before the roof must be replaced, the existence of a reserve fund for replacement may increase the marketability and value of units to knowledgeable purchasers.

An important policy issue for the Board is the decision to use current costs, or estimated future costs. Use of an inflation rate will generally result in higher estimates of future costs.

If the Board uses current costs, it is essential that the association Board review the reserve costs annually based upon updated current replacement costs plus currently required or anticipated expenditures. The annual cost for each component would be calculated by dividing the unfunded replacement cost by the remaining useful life. **THIS APPROACH IS VALID ONLY IF REPEATED EACH YEAR.**

If the Board chooses to use an inflation rate, it would apply an average annual long-term cost inflation rate to all components from the time of the study until the year of replacement (based on recent average component cost data). **TO KEEP THIS PLAN CURRENT, IT IS IMPORTANT TO ANNUALLY REVIEW AND UPDATE PROJECTED EXPENDITURES, INFLATION FACTORS AND OTHER ASSUMPTIONS.**

There are a number of ways to select an inflation rate for estimating component costs in future years. Examples of reliable sources of information for inflation factors in California are the following:

- The Federal Bureau of Labor Statistics
- Published information from construction cost estimating companies such as R.S. Means Company, Inc.
- The California State Allocation Board

In the pages that follow under this subject, there are precalculated reserve factors for several components. The reserve worksheet in Part IV provides space for use of either these precalculated factors or factors obtained from other sources. Some building components are generally expected to last the lifetime of the structure (electrical, plumbing, etc.). Normally no reserve is established for these items.

The reserve factors in this manual are based upon new building components and equipment. Therefore, these reserve factors need to be adjusted to be used for an existing development or for

the conversion of an existing structure. For existing structures you would normally divide the cost of replacing the component by its remaining useful life.

The best estimate of a component's useful life can normally be obtained from a contractor or expert in the particular field. The average lives of some of the larger building components are listed in the reserve section.

Replacement costs are difficult to estimate. However, with some effort it should be possible to arrive at a reliable estimate of replacement costs by studying appropriate building trade publications or by discussions with the customer service departments of major suppliers of building components.

301. PAINTING**Average Costs**

Painting reserves are estimated by measuring the perimeter of each structure and multiplying that amount by the height using 10' per story. This is adequate for the normal one to three story structure. No discount or additions are considered for the openings (doors and windows). Frequency of painting will vary with the surface as well as the exposure. The basis used in this manual assumes a ten year cycle on stucco and five years on trim with an overall average for most structures of seven years. Each association will develop a greater or lesser amount for this reserve as experience will dictate. The estimate based on this manual is considered to be an adequate minimum for most developments. The total estimated painting cost per square foot is \$.63/SF or \$.09/SF/YR for stucco and \$.13/SF/YR for wood trim. The square footage estimate for calculating interior painting should be added to the exterior area when making the calculations. Costs will vary depending upon the amount of preparation work needed or building structure. For example, scaffolding for multi-story buildings (over two stories).

All areas to be painted should be included in your calculations. Commonly overlooked items are: gates, mailboxes, utility closets and doors, garage areas and courtyards.

Wood Siding

For associations with exterior walls of wood siding or Masonite, an adjustment should be made to the average cost indicated above. After computing the surface area of the wood siding, a factor of \$.15/SF/year should be used to compute the reserve cost. If both stucco with normal trim and wood siding make up the exterior walls, they should be listed separately on the reserve worksheet.

Decks, Porches, etc.

Associations without wood siding which have wood decks, porches, covered or latticed patios should also adjust their paint reserve. The factor used for wood siding would normally apply in this situation. Since this type of work is more labor intensive, similar items requiring stain instead of paint should also use the higher factor, if applicable.

302. ROOFING

The following are the recommended reserves for the various types of roofing. In Palm Springs, add 20% for added costs to satisfy environmental requirements.

<i>Roof Type</i>	<i>New Cost/SF/YR</i>	<i>Average Life *</i>
Built-up paper/rock roofs	\$0.17	12 yrs.
Composition shingles	\$0.11	17 yrs.
Wood shake	\$0.16	24 yrs.
Wood shingles	\$0.15	20 yrs.
Fiberglass shingles	\$0.11	20 yrs.

* Life will vary with the quality of workmanship, material used and weather conditions.

Concrete or clay tile is considered a lifetime roof. However, it is strongly recommended that \$0.02/SF/year be set aside for underlayment repair (leaks) and breakage replacement.

If the old roof must be removed, there will be additional costs which must be included when determining the total replacement cost.

303. WATER HEATERS

The estimated reserve includes the retail cost of the heater and professional installation including disposal of old unit. Estimated life is based on a seven to ten year average replacement cycle.

<i>Capacity</i>	<i>Cost/Year</i>
40 gallon capacity	\$70
70–80 gallon capacity	\$150
100 gallon, quick recovery	\$200
Boiler (15 year life)	\$300

Circulating Pumps — Quick Recovery/Boilers

<i>Line Size</i>	<i>Cost/Year</i>	<i>Average Life</i>
1"	\$40	7 years
2"	\$55	7 years
3"	\$90	7 years

Solar Heating

The California Energy Commission estimates that the collector will last at least 20 years, the tank 15 years, pumps and controls 10 years, and the plumbing 20 years. Replacement reserves estimated at 6.5% of the installed cost per year should be adequate. Maintenance is 0.5% of installed cost per year. The pump (usually 1/20 – 1/40 hp) will run 8–10 hours a day and consume approximately 350 kilowatt hours of electricity a year.

304. ELECTRIC LIGHTING FIXTURES

The reserve for this item is for replacement of the fixture itself. It is assumed that bulb replacement costs are a minor repair item. Exterior fixtures being exposed to the elements have a shorter estimated life. The following amount is considered minimum.

Exterior fixture	\$9.00/year/fixture
Street Lights	\$85.00/year/light

305. FLOOR COVERINGS

<i>Floor Type</i>	<i>New Cost/SF/YR</i>	<i>Average Life</i>
Carpeting	\$0.36	7 years
Linoleum	\$0.22	14 years
Hardwood (refinishing only)	\$0.17	12 years
Vinyl Tile/Sheet	\$0.30	15 years
Waterproofing (deck/patio/terrace)	\$0.35	6 years

306. ELEVATORS

An elevator replacement reserve is not required since the elevator usually lasts as long as the structure itself. There is need, however, for a major component reserve as well as a budget item for a monthly service contract. The cost of periodic servicing of the overhead traction elevator is higher than that for the hydraulic lift type. The mechanism to operate the hydraulic lift elevator is much more extensive and complicated.

Hydraulic	\$1,050.00/year (see note)
Traction	Full service only — no reserve

Note: Less than a full service contract on a hydraulic type elevator will require a reserve as shown above. Less than full service is normally referred to as “oil and grease contract service”.

307. STREET AND DRIVEWAYS

Asphalt – Intermittent Care

Budgeting should consider the long term care of streets, driveways and parking areas. A full cycle of maintenance should be provided that includes all applicable items shown below.

Seal coat	Slurry coat
Culverts	Provision for storm damage
Sign replacement	Striping
Reoiling	Patching
Regraveling (gravel roads)	Berming

Asphalt surfaces should be resealed every five years. They will probably also need intermittent care such as striping and patching. The reserve based on a cost of \$0.08 per square foot per year can be used to defray these costs in moderate climates. Where there are special problems such as severe weather or unusual physical conditions as in Northern California, the cost could double.

Oil and Chip

“Oil and Chip” surfaces normally have a life of 3 or 4 years and would require \$0.08 per square foot per year reserve.

Cost Summary

<i>Surface Type</i>	<i>SF Cost Per Year</i>
Asphalt surfaces (blacktop) (moderate climates)	\$0.08
Oil and Chip surfaces	\$0.08
Concrete surfaces	none required

Large areas may cost less on a cost/square foot basis. It may be advisable to get a bid if you fall into this category.

308. HEATING AND AIR CONDITIONING

<i>Type</i>	<i>Average Cost Per Year</i>	<i>Average Life</i>
Forced air furnace (for average recreation room)	\$100	15 years
Forced air furnace with A/C (for avg. recreation room)	\$200	15 years
Heat Pump (used with central unit)	\$150	—
Thru wall A/C units	\$85	9 years
Floor or wall furnaces	\$50	13 years
Central Heat, A/C for units	Cost ÷ 15 year life	

The best method of setting up reserve costs for these items is to determine the cost of the equipment installed, and divide by the life indicated.

309. SWIMMING POOLS AND SPAS

Pool and spa costs will vary for large custom pools or spas as well as very small pools and spas. Costs should be adjusted accordingly. For standard sizes, average costs are:

<i>Item</i>	<i>Average Cost Per Year</i>	<i>Average Life</i>
Pool Re-plaster	\$350	12 years
Pool Heater	\$145	12 years
Pool Filter	\$80	10 years
Spa Re-plaster	\$100	10 years
Spa Heater	\$125	10 years
Spa Filter	\$80	10 years
Pool/Spa Pumps	\$100	6 years

Solar Heating

Reserve requirements will vary with the type of collector panel used as well as with the price. Most pool systems use “unglazed” collectors which are cheaper than those used for water heating. Unglazed collectors vary, also: those made of metal will last longer than plastic. The California Energy Commission has not made public its figures on the useful life of this equipment. An adequate reserve will equal about 0.5% of installed cost per year. Depending on how the system is used, there may be a small increase in electricity used to run the filter pump. Replacement reserves amounting to 6.5% of the installed cost per year should be adequate.

310. TENNIS COURTS

<i>Item</i>	<i>Cost Per Year</i>
Net replacement (3 yrs)	\$150
Wind screen (full court; 5 yrs)	\$300
Asphalt resurfacing (4–7 yrs)	\$450
Concrete resurfacing (5 yrs)	\$500
Light fixtures	\$100
Elastometric caulking (4–7 yrs)	\$100

311. FURNISHINGS AND EQUIPMENT

<i>Item</i>	<i>Cost</i>
Furnishings	Cost ÷ 5 years
Appliances/equipment	Cost ÷ 14 years

**312. WALLS AND FENCES —
REPLACEMENT/REPAIR**

<i>Item</i>	<i>Cost Per Year</i>	
Chain Link (repair/replacement; 20 year life)	\$0.42	linear foot
Concrete block (repair)	\$0.10	linear foot
Concrete block (paint)	\$0.09	square foot/side
Wood (repair/replacement; 10 yr life)	\$1.00	linear foot
Wood (paint/stain) (Compute with wood siding, if any. See Item 301 in manual.)	\$0.15	square foot/side
Wrought Iron (paint) (Compute costs separately from paint worksheet.)	\$0.30	square foot/side
Wrought Iron (repair/ replacement; 15 year life)	\$1.65	linear foot

313. MISCELLANEOUS

<i>Item</i>	<i>Cost Per Year</i>
Sump pumps (12 year life)	\$60
Sewer lifts (pumps; 10 yr life)	\$200
Garage ventilation systems	\$250
Solar systems (Also see Gas & Pools)	Total Cost ÷ 10–15 yr life
Racquetball courts	\$240
Lakes/waterways	
Pumps	\$300
Cleaning (every 5 years)	\$0.02–.04 square foot
Motorized gates	
Gate (repair/replacement; 15 year life – large double gates, \$280/yr)	\$150
Gate operator (all types – 5 yr life)	\$120
Total Per Gate	\$270
Wallpaper (10 year life)	\$0.19 square foot
Tree Trimming (mature trees)	\$85/yr/tree

Reserve cost for septic tank

Use 6% of the total cost for leach field excavation, gravel, paper, straw and other backfilled materials, leach field pipe, distribution boxes, and valves. This cost is approximately \$75 per living unit per year.

401. MANAGEMENT

The management function of a community association is administrative in nature. The Board of Directors is the principal policy-making body and establishes policies, standards, procedures, programs, fiscal policies and procedures and eventually, the association's operating budget.

There are various approaches to association management; including the use of unpaid volunteers, hiring association paid staff or utilizing a third party management firm, each of which has its pluses and minuses. Whatever the level of management services selected for the association, clearly defined tasks and responsibilities will contribute to the overall successful management of the association.

Although the governing body of the association may be willing and capable of managing the physical plant of the association, it may be unwilling or unable to manage the fiscal responsibilities mandated by the governing documents and compliance with existing law. This service may be provided by a management company or financial institution which will provide fiscal billing for members and in some instances, pay the bills incurred by the association. A higher level of service than provided by a financial institution may be required to assist the governing body in sound fiscal control management.

The hiring of professional management, whether they be a direct employee of the association or a management firm, is a critical administrative task. Community association management has become a highly technical profession requiring a trained practitioner educated in the state-specific laws in managing California community associations.

As laws continue to be added each year requiring additional compliance of the duties and responsibilities of the board of directors, the association may be well-served to hire skilled professionals in the management of a community association.

Professional management company

The higher level of fiscal management, or financial service, can usually be obtained through a professional management company. The customary financial service provided by a management firm may include, but is not limited to: collection of assessments, payment of bills, preparation of comprehensive financial reports which includes; a balance sheet, an income vs. expense statement, receipts and disbursement journal, check register, and delinquency reports. Delinquency follow-up reports and current members listing are other types of reports which can be generated.

Fiscal billing and collection

An association electing to contract with a management firm that offers minimal fiscal services, or fiscal billing and collection activities (other than delinquency collection), should budget an amount of \$8/unit/month or \$250, whichever is greater.

Financial service

An association electing to contract with a management firm that offers a higher level of fiscal service, or financial service includ-

ing billing, collection, payment of invoices, preparation of financial statements and fiscal compliance to California Civil Codes should budget \$11/unit/month or \$750 per month, whichever is greater.

Third party common-interest specialist

The association may wish to contract for management by a third party professional management company specializing in common-interest subdivisions. Not all associations require the same level of management services and not all management companies provide the same level of services.

The cost of management is not minimized because of the size of a common-interest subdivision. Functions of a manager for associations are driven by the cost of manpower and not the size of the subdivision. Duties performed relate to associations of all sizes as current regulations and Civil Codes do not differentiate between sizes of common-interest subdivisions or the types of amenities contained within, or whether the development is attached or detached.

Administration and compliance program

The administration and compliance program encompasses all financial activities of a routine basis for any given fiscal year. They include day-to-day communication and problem solving with unit owners on common area issues and communication with subcontractors performing services for the association. Also included is record keeping for the association, the paper documentation required by law for compliance with state, federal and local regulations and requirements, as well as the attendance at the Board of Directors meetings and the annual meeting of the association members.

An association that elects to implement an administrative and compliance program which includes financial services, administrative duties and compliance to regulations and Civil Codes should budget \$15/unit/month or \$1,500/month, whichever is greater.

Full service management

Full service management to the association directs the above administrative activities and creates and implements management programs using sophisticated tools for risk management, preventative management programs in the areas of property maintenance, financial planning and communications with unit owners.

An association that elects to contract for a full service management program, as well as defined management activities involving the creation and implementation of plans for maintenance of physical amenities, should budget \$15 to \$25/unit/month or \$3,000, whichever is greater.

Some associations may choose to employ a full-time association employee performing day-to-day management services. The salary of this employee will depend upon a variety of factors. In those associations where a full-time manager is employed, the manager's contract can be negotiated by the governing body in advance of the preparation of the annual budget.

An association electing to implement a full service management program by a full-time association employee, should budget \$3,700 or more per month plus 35% for payroll costs and

benefits. Contracts to manage the association should be submitted for review.

As developments increase in size, the work to be performed intensifies as the number of members that have access to management increases with each unit added. Additionally, as the association ages, the cost to perform services (administration) intensifies as the reactive mode of operation is more time consuming and costly to perform.

Summary

Whatever form of financial, administrative or management program is budgeted for the association, the following cost guidelines have been developed from actual industry practices:

- *Small associations*
with less than 12 units self managed
\$10 per unit per month or
\$100 per month whichever is greater
- *Fiscal billing and collection activities (other than delinquency collection)*
\$8 per unit per month or
\$250 per month, whichever is greater
- *Financial service*
including billing, collection, payment of invoices, preparation of financial statements and fiscal compliance to California Civil Codes
\$11 per unit per month or
\$750 per month, whichever is greater
- *Administrative and compliance program*
which includes financial services, administrative duties and compliance to regulations and California Civil Codes
\$15 per unit per month or
\$1,500 per month, whichever is greater
- *Full service management program*
which includes financial services, administrative program, as well as defined management activities involving the creation and implementation of plans for the maintenance of physical amenities — larger associations
\$15–\$25 per unit per month or
\$3,000 per month, whichever is greater
- *Full-service management program by full-time association employee*
large associations
\$3,700 or more (depending on size) a month per manager plus 35% for payroll costs and benefits

Other typical services required but not included in the above programs include but are not limited to:

- Coordination of alternative dispute resolutions litigation
- Minute taking and preparation of meetings of the association
- Collection of delinquent accounts
- Property inspections
- Rules enforcement/proceedings
- Architectural processing and monitoring
- Attendance at association meetings beyond one per month
- Transfer of owner documentation

- Securing proposals for subcontractors work (particularly with reserve items)

These services are typically charged on an hourly basis to the association which may cost \$55 or more per hour depending on the complexity of the program. Amounts that are less than or exceptionally higher than what is covered under this section must be submitted with the appropriate substantiating documentation.

402. LEGAL SERVICES

The association may require counseling services of an attorney for any number of reasons. It is considered advisable to budget during the early years of an associations' existence for these counseling services. The figure of \$300 per year or \$10 per unit per year, whichever is the larger amount, should be sufficient.

If the association becomes involved in litigation which requires the payment of a substantial amount for attorneys fees and costs, and such expenses can be anticipated for a budget year, the regular assessment should be increased to defray these costs. In those cases where the expense is an unexpected one, the money may have to be raised by a special assessment.

403. ACCOUNTING

The Regulations of the Real Estate Commissioner require that the CC&R's or Bylaws of a common-interest subdivision provide for the preparation and distribution of an annual operating statement and a balance sheet of the association to members within 120 days after the close of the fiscal year. In any fiscal year in which the gross income to the association exceeds \$75,000, these fiscal year financial statements must be the result of an external review by an independent public accountant. Even where an external review is not required, an expense will be incurred by the association unless a member of the association with accounting expertise is willing to donate his services.

According to Civil Code 1365 the Board of Directors is required to give annual financial statements to all members. These statements include, but are not limited to, an annual proforma operating budget. See Civil Code 1365 for details concerning other requirements.

The cost of an uncertified audit or review may begin at \$720. This should cover an association of 15 units or less with complete, well-kept records. As the number of units increase, so will the cost. Therefore, we recommend budgeting \$720 per year or \$12 per unit per year whichever is greater, but should not exceed \$2400 per year. The minimum cost for a certified audit is at least \$1,000.

It is a good practice to obtain quotations from several accountants as the basis for the budgetary estimate for the annual review or certified audit and preparation of Federal and State tax returns.

404. EDUCATION

Due to the sophistication required in running a homeowners association, it is incumbent that board members and officers be familiar with the laws, regulations, codes, governing documents, etc. that impact their fiduciary duties and responsibilities. Courses

and seminars are available through various industry groups such as the Building Industry Association (BIA), Community Associations Institute (CAI), California Association of Community Managers (CACM), Executive Council of Homeowners (ECHO), etc. There are also courses available at community colleges, adult education programs, etc.

Since board members change and courses are not always available when needed, the cost for education should be continuous. The recommended minimum is \$1.00 per unit per month or \$15.00 per month whichever is greater, but no more than \$2,500/YR. This is based on the assumption that not all board members will attend courses at the same time, or even the same course. Another way for the boards to keep abreast of current changes in the laws, etc. is to purchase reference material and/or industry periodicals.

In addition to this manual, the Department of Real Estate (DRE) publishes another manual titled *Reserve Study Guidelines for Homeowner Association Budgets*. Also, two other good sources for real estate law and regulations are the *Real Estate Law Book*, published by the DRE and the *Condominium Blue Book* published by Branden E. Bickel, B&B Publications.

405. MISCELLANEOUS

This category encompasses the purchase and repair of supplies and equipment for the conduct of the associations business and the cost of renting business office, storage and meeting space if such space is not available within the subdivision common area. If office and storage space within the common area is non-existent or inadequate, it may be necessary to rent such space from a resident within the subdivision or in a nearby community. Additional expenses could include newsletters and/or correspondence.

Frequently the common area does not include a meeting room large enough for regular or special meetings of the members of the association. Such rooms are generally available at no cost or at a nominal cost in churches, schools or other public buildings.

500's — CONTINGENCY

501. NEW CONSTRUCTION

It is seldom possible to anticipate every expense that will be incurred by an association during an operating year. In the case of new construction, a contingency equal to 3% of an annual budget is recommended for unforeseen operating and reserve items. If the subdivision is over 4 years old, use 5%.

502. CONVERSIONS

Where a condominium development is created out of the conversion of an existing apartment house or complex, a contingency reserve of 5% of the total budget should normally be adequate.

For high-rise buildings (over 70 feet) a 10% contingency is reasonable.

503. REVENUE OFFSETS

Normally, revenue derived through leasing, renting, laundry, etc. will just cover anticipated costs for repair, replacement, utilities, cleaning, etc. For leased equipment, replacement or repair may be done by the leasing company and only utilities or minor maintenance may be covered by the revenue received.

Another source of revenue for existing associations may be interest income. Interest income may be considered non-exempt income in some cases and be taxable.

Existing associations with a strong history (2 years or more) of a revenue source may, if the amount is significant, use the revenue as an offset against total expenses. If so, all related expense items noted earlier should also be included in the budget. Attach supporting financial records and calculations used in determining the amount shown in the budget.

BUDGET SUBMITTAL AND REVIEW SUMMARY FOR THOSE REQUIRED TO FILE WITH THE DEPARTMENT

Regardless of the type of common-interest subdivision you are involved with, completing a Duplicate Budget Package (DBP) for Department review is very important. The information necessary for compliance can be found in the application packets RE 624 (Common-Interest), RE 635 (Amendment/Renewal), and RE 658 (Stock Cooperative or LEHC) or in the Subdivision Public Report Application Guide (SPRAG). The instructions and guide are available at the subdivision office in Sacramento or Los Angeles.

The general procedures given here will apply to the majority of the projects reviewed by the Department. Completing the budget form (RE 623), including computing various costs, is explained in the remainder of the manual. Other required forms or documents are listed in Parts I and II of the application packets. You may wish to contact the Department's Budget Review Section for additional information.

Plans and Maps

As part of the submittal, a plot or site plan is required. This plan should show the layout of the buildings, streets, recreation facilities, walls and entry structures, if applicable. Also, the plan should be a scale drawing. Large, especially phased, projects may require a separate plot or site plan for each phase. A map showing the phasing plan for the entire project must also be submitted.

The tract map and/or condominium plans should also show legible dimensions and be a scale drawing. All of these are necessary for verification of area calculations and location of the common facilities. A legible and adequately detailed vicinity map is required.

Phase Projects

When submitting DBP's for phased projects, only provide budgets for those phases that are projected to be completed within three years. If the subdivider is no longer in control, see Existing Homeowner Associations Section below for procedures. Also, an estimated assessment for the built-out project should be submitted. Budgets are considered acceptable for 18 months from the date the appraiser completes the review. Changes in the offering budget or non-issuance of a Public Report before 18 months expire may be cause for a second review of the budget.

Existing Homeowner Associations

When submitting a DBP for review of an existing homeowner association, the same procedures would be followed unless the subdivider is no longer in control. Normally, the subdivider would be considered in control of the association if he controls more than 25% of the Class B votes or 50% of the voting power if only one class is in existence. If the subdivider is not in control, the submittal for review should include the following:

- The association's most recent audited financial statements for the past two years or from start-up, whichever is less.

Also, a year-to-date statement. (Current year only if a reserve study is submitted.)

- A copy of the association's current budget. If the HOA has approved the budget for the next fiscal year also include and indicate the commencement date for the fiscal year.
- A statement from the association showing the dollar amount of past due delinquencies. In particular, the statement should indicate assessments due, if any, from the subdivider.
- A copy of the following information as required to be distributed to the membership under Civil Code Section 1365 (A comprehensive reserve study should cover the items listed below):
 - The amount of the total cash reserves of the association currently available for replacement or major repair of common facilities and for contingencies.
 - An estimate of the current replacement costs of, and the estimated remaining life of, and the methods of funding used to defray the future repair, replacement or additions to, those major components of the common areas and facilities which the Association is obligated to maintain.
 - A general statement setting forth the procedures used by the governing body in the calculation and establishment of reserves to defray the costs of repair, replacement or additions of major component of the common areas and facilities for which the association is responsible.

After the above documents have been reviewed, it may be necessary to request additional information if a clear picture of the financial status of the association is not presented. If the existing association has operating deficiencies and/or underfunded reserves, a special note will be included in the Public Report.

Conversions

For submittal on buildings converted to condominium or stock cooperatives, RE 639 must be completed and included with the DBP. It is important to note the date of the past or future renovations when completing the form. Reserve amounts in the budget may change depending upon the remaining life of the building components and equipment. The costs shown for reserve estimating in this manual are for new building components and equipment. Also, shown in the reserve section are the expected useful lives of each item. To compute the reserve for a roof (for example) that has a 10 year remaining life which was 20 years when new, one would double the cost factor shown in the manual ($10/20 = 1/2$ life = $2 \times$ cost factor).

Bonds for Completion

When using a bond as security for completion of on-site construction work RE 611 must be completed and submitted for review and acceptance by the Department. Hard cost and/or in-house estimates must include an additional 20% in the total cost to complete. Items that are subcontracted and are verifiable by

executed contracts normally need not include the 20%. Also, an annual inflation factor should be added, prorated on a monthly basis, for the months left until completion.

Although not specifically required, if the completion bond includes the living units, building plans may be requested if the required maps/plans are inadequate for cost verification.

Worksheets

As noted earlier, this manual contains forms and worksheets to assist you in preparing a budget. It is important that all worksheets and forms are completely filled in (if applicable) prior to submittal to the Department of Real Estate.

Cost Centers

The “cost center” term, as used for budget purposes, identifies an area of a project used by only some of the owners within a homeowners association. Typically, this may be a guard gate or recreational facility utilized only by a portion of the association membership. It would be unreasonable in these cases to require all members of the association to contribute to the maintenance of a facility only benefiting a portion of the project. Cost center budgeting may be used on a limited basis when appropriate.

Range of Assessments

Defined: Range of Assessments is a method or procedure used for setting up an assessment/budgeting program for large projects with multiple builders. The estimated range is established for the project through review of the proposed assessment program from start-up to built-out. The range is useful for projects with multiple product types and is limited to no more than a 100% differential from the lowest (best case) to highest (worst case) assessment in the project; possibly less, depending on the impact to the association and members. The minimum size of a project for use of this procedure is 200 lots/units, unless it falls within the definition of a Master Planned Community.

A Range of Assessments can be “stepped,” usually down, as the assessments decline towards built-out. The number of “steps” or ranges established for a project would normally be limited to two and consist of no less than 10 phases each. Any exceptions to these criteria would be considered on a case by case basis.

For use of this procedure a preliminary review and approval should be completed prior to filing with the Department. Contact the Budget Review Section for more information.

Once approved for use by the Supervising Appraiser, the budgets are reviewed by staff for accuracy, quality and to make sure they meet our minimum cost manual guidelines.

Level of Assessment Procedure

Defined: The Level Assessment procedure is a method or procedure used for setting up an assessment/budgeting program for large projects with one or more Subdividers. Generally, the level assessment selected falls within a range of the actual assessments, which are both above and below the level amount. Also, the level amount can be “stepped,” usually down, as the assessments decline towards built-out.

The estimated level assessment or assessments are established for the project through review of the proposed assessment

program generally from start-up to built-out. The established level assessment amount cannot be more than 15% above or below the actual estimated assessment for any given phase. Any “step” in the level assessment must include a minimum of 3 phases. The minimum size of a project for use of the procedure is 100 lots/units with 10 or more phases.

By definition, there will be phases where the established level amount is less than the estimated actual expenses or budget. For that reason and in order for this procedure to be viable, some surplus funding of the operating account is necessary in the initial phases of the project. During the life of the Level Assessment Procedure, the cumulative operating surplus, combined with actual assessments, should not drop below 3 months of funding, or 10% of the current monthly budget, whichever is higher. Any exceptions to these criteria would be considered on a case by case basis.

For use of this procedure a preliminary review and approval should be completed prior to filing with the Department. Contact the Budget Review Section for more information.

Once approved for use by the Supervising Appraiser, the budgets are reviewed by staff for accuracy, quality and to make sure they meet our minimum cost manual guidelines.

Fixed Assessments

Defined: The fixed assessment procedure is a method or procedure used for setting up an assessment/budgeting program for larger Planned Developments that have consistent and/or minimal common areas in each phase. The procedure is used to fix the total per lot/unit per month assessment in a phased project at the same amount for all phases.

Using this technique calls for adjusting the contingency line item on the budget up or down so that the bottom line of each budget for every phase has the same total per lot/unit per month. No pre-approval or extra data is needed for reviewing or using this procedure. The only conditions for use are: that any adjustments made to the actual contingency amount have to be minimal, no more than 7% of the budget; no negative contingencies in the budget; and, that this procedure cannot be combined with the range or level assessment procedure.

Note: Specific management and budget guidelines are available and must be adhered to in order to utilize these procedures.

BUDGET WORKSHEET RE 623

*The following 15 page worksheet
is for your use.*

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F.O.A. = Fixed, Operating and Administration

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